

Message Text

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C O N F I D E N T I A L STATE 186021 TOSEC 080182

E.O. 11652: GDS

TAGS: ENRG, SA

SUBJECT: STATUS REPORT ON ADMINISTRATION'S ENERGY PROGRAM

REF: SECTO 8079

1. THE ADMINISTRATION'S ENERGY PROGRAM REACHED A KEY MILESTONE WITH HOUSE PASSAGE OF ENERGY BILL BY VOTE OF 244 TO 177 ON AUGUST 5. ADMINISTRATION PROPOSALS EMERGED LARGELY INTACT WITH ONLY MAJOR CASUALTY THE LOSS OF THE STANDBY GASOLINE TAX. THE SENATE IS EXPECTED TO ACT ON THE PROGRAM AFTER THE AUGUST RECESS.

2. MAJOR PROVISIONS OF THE HOUSE VERSION OF THE ENERGY PROGRAM ARE AS FOLLOWS:

OIL EQUALIZATION TAX -- THE KEY ELEMENT OF THE HOUSE PASSED BILL IS AN OIL EQUILIZATION TAX WHICH WOULD FORCE
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THE PRICE OF DOMESTIC OIL TO WORLD LEVELS IN THREE ANNUAL STEP BEGINNING IN 1978. EFFECT WILL BE TO RAISE THE PRICE OF GASOLINE ABOUT FOUR AND ONE HALF CENTS PER GALLON WITH SIMILAR INCREASES FOR OTHER PETROLEUM PRODUCTS.

NATURAL GAS -- GAS WILL REMAIN UNDER PRICE CONTROL WITH CONTROLS EXTENDED FROM GAS IN INTERSTATE COMMERCE

TO INCLUDE GAS CONSUMED IN THE STATE IN WHICH IT IS PRODUCED. IN ADDITION THE CEILING PRICE ON GAS WOULD BE INCREASED FROM DOLS 1.46 PER THOUSAND CUBIC FEET TO DOLS 1.75 AND IN THE FUTURE WOULD RISE ALONG WITH THE PRICE OF OIL.

AUTOMOBILE TAXES -- BEGINNING WITH THE 1979 MODEL YEAR TAXES WILL BE IMPOSED ON INEFFICIENT AUTOMOBILES -- THE SO-CALLED GAS GUZZLERS. THE TAX VARIES WITH BOTH GAS CONSUMPTION AND MODEL YEAR AND BY 1985 COULD AMOUNT TO AS MUCH AS DOLS 3,850 ON A CAR GETTING LESS THAN 12.5 MPG. THE HOUSE BILL DOES NOT INCLUDE THE REBATE PROVISIONS FOR ENERGY EFFICIENT CARS INCLUDED IN THE ADMINISTRATION PROPOSALS. ALSO REJECTED BY THE HOUSE WAS THE PROPOSED STANDBY GASOLINE TAX WHICH POTENTIALLY COULD HAVE RAISED THIS TAX BY 50 CENTS IN 5 CENT PER YEAR INCREASES IF CERTAIN GAS CONSUMPTION TARGETS WERE NOT MET. SIMILARLY, THE HOUSE REFUSED TO ENACT AN IMMEDIATE 5 CENT INCREASE IN THE CURRENT 4 CENT FEDERAL GASOLINE TAX BUT IT DID EXTEND THE CURRENT TAX, WHICH OTHERWISE WOULD HAVE DROPPED TO ONE AND A HALF CENTS IN 1979, TO 1985. FINALLY, THE HOUSE BILL WOULD REPEAL THE PERSONAL DEDUCTION FOR STATE GASOLINE TAX PAYMENTS CURRENTLY ALLOWED UNDER FEDERAL INCOME TAX PROVISIONS.

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ELECTRICITY -- RATE STRUCTURE REVISIONS WOULD BE REQUIRED OF ELECTRIC UTILITIES TO ENCOURAGE CONSERVATION. THE BILL WOULD PREVENT QUANTITY DISCOUNTS AND INCLUDES WIDE VARIETY OF OTHER ELECTRICAL UTILITY REFORMS.

COAL CONVERSION -- THE HOUSE BILL WOULD USE A SERIES OF TAXES, REBATES AND REGULATORY POWER TO ENCOURAGE INDUSTRY AND UTILITIES TO SHIFT FROM BOILER USE

OF OIL AND GAS TO COAL. IN GENERAL, NEW PLANTS COULD BE REQUIRED TO USE FUEL OTHER THAN OIL AND GAS. A TAX ON THE INDUSTRIAL USE OF GAS AND OIL WOULD BE IMPOSED. IT WOULD FALL MOST HEAVILY ON THOSE INDUSTRIES WHICH CAN CONVERT TO OTHER ENERGY SOURCES. EVEN ON THOSE INDUSTRIES WHICH CANNOT CONVERT TO COAL A SOMEWHAT LOWER TAX WILL BE IMPOSED TO ENCOURAGE THE CONSERVATION OF THE FUEL NOW IN USE. TAX REVENUES WILL BE REBATED TO HELP PAY INDUSTRIAL AND UTILITY COSTS OF CONVERTING TO COAL.

APPLIANCES -- MAJOR HOUSE APPLIANCES WOULD BE REQUIRED TO MEET ENERGY STANDARDS AND WILL BE LABELED TO INDICATE THE AMOUNT OF ENERGY CONSUMED.

HOME INSULATION -- INDIVIDUALS WOULD BE GIVEN A TAX CREDIT OF UP TO DOLS 400.00 FOR INSULATING THEIR HOMES AND EVEN HIGHER CREDITS FOR INSTALLING SOLAR AND WIND ENERGY EQUIPMENT. INSULATION TAX CREDIT WOULD ALSO BE AVAILABLE FOR BUSINESSES. THE BILL ALSO PROVIDES FUNDS TO ASSIST IN THE INSULATION OF SCHOOLS AND HOSPITALS

AND A LOW INCOME HOME WEATHERIZATION PROGRAM.

OTHER PROVISIONS -- THE HOUSE BILL ALSO CONTAINS PROVISIONS WHICH WOULD REPEAL EXCISE TAXES ON BUSES, INCREASE THE FULL TAX ON PLEASURE BOATS AND PROVIDE FOR SOLAR HEATING DEMONSTRATION PROGRAMS IN FEDERAL CONFIDENTIAL

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BUILDINGS.

3. AS THE RESULT OF HOUSE ACTION, CONSERVATION SAVINGS REMAIN ROUGHLY AS INCLUDED IN ADMINISTRATION PROPOSALS. OIL SAVINGS FROM THE COAL CONVERSION PROGRAM, HOWEVER, WERE CUT TO BETWEEN 35-40 PERCENT OF THE AMOUNT REQUESTED. NET SAVINGS FOR THE HOUSE BILL AS A WHOLE ARE FROM 55-65 PERCENT OF THE ADMINISTRATION'S ESTIMATES.

4. THE ADMINISTRATION WILL ATTEMPT TO STRENGTHEN THE ENERGY BILL IN TWO WAYS DURING CONSIDERATION BY THE SENATE. FIRST IT WILL TRY TO STRENGTHEN THE OIL AND NATURAL GAS TAXES IMPOSED ON INDUSTRY AND THE UTILITIES TO ROUGHLY DOUBLE THE SAVINGS. SECONDLY, THE ADMINISTRATION WILL PUSH FOR A STRONGER GAS GUZZLER TAX. IF THESE TWO CHANGES WERE MADE THE SAVINGS WOULD BE RELATIVELY CLOSE TO ORIGINAL ADMINISTRATION ESTIMATES.

5. THE REGULATORY AND EXPENDITURE PORTIONS OF THE LEGISLATION ARE RECEIVING A GENERALLY FAVORABLE RECEPTION IN THE SENATE. THE FATE OF THE TAX PROPOSALS REMAINS UNCLEAR AT THIS TIME. DR. SCHLESINGER WILL BE TESTIFYING ON THE TAX PORTIONS OF THE NATIONAL ENERGY ACT ON MONDAY, AUGUST 8.

6. OVERALL THE CONGRESS HAS TAKEN PRESIDENT CARTER'S ENERGY PROGRAM SERIOUSLY AND HAS GONE ALONG WITH ALMOST ALL HIS RECOMMENDATIONS. THE SPEED WITH WHICH THE HOUSE ACTED ON THIS LENGTHY AND VERY COMPLICATED PROGRAM IS EVIDENCE OF HIGH CONGRESSIONAL PRIORITY GIVEN TO ENERGY ISSUES. THE ADMINISTRATION NOW EXPECTS FINAL ACTION ON THE ENERGY PROGRAM BY THE TIME CONGRESS CONFIDENTIAL

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ADJOURNS IN THE FALL. CHRISTOPHER

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